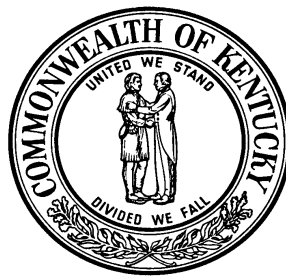


**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CAMPBELL COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Campbell County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Campbell County Sheriff had total revenues of \$1,827,797, which was a \$126,650 increase from the prior year. Except for reimbursed expenses in the amount of \$318,404, the sheriff paid 25% of revenues to the Campbell County Fiscal Court in the amount of \$358,140. This was an increase of \$21,469 from the prior year. In addition, operating expenditures increased by \$121,476.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of December 1, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$649,351

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Pendery, Campbell County Judge/Executive
Honorable John Dunn, Campbell County Sheriff
Members of the Campbell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Campbell County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2006. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Steve Pendery, Campbell County Judge/Executive
Honorable John Dunn, Campbell County Sheriff
Members of the Campbell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Campbell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

December 4, 2007

CAMPBELL COUNTY
JOHN DUNN, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants		
Kentucky Law Enforcement Foundation Program Fund	\$	35,249
State Fees for Services		
Court Security		150,586
Telecommunication Fees		6,782
House Bill 452		99,799
Fiscal Court		25,025
County Clerk		4,162
Commission on Taxes		1,180,980
Fees Collected for Services:		
Auto Inspections	\$	34,950
Serving Papers		134,800
Carrying Concealed Deadly Weapon Permits		16,645
Tax Penalty Fees		90,954
Transportation	1,335	<u>278,684</u>
Other Revenues:		
Insurance Reimbursement		14,410
Travel Account Reimbursement		8,000
Interest Earned		19,913
Miscellaneous	<u>4,207</u>	<u>46,530</u>
Total Revenues		1,827,797

Expenditures

Payments to State:		
Carrying Concealed Deadly Weapon Permits		9,785
Payments to Fiscal Court:		
Serving Papers Fee		43,960
Postage		<u>16,000</u>
Total Expenditures		<u>69,745</u>

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN DUNN, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES-REGUALTORY BASIS
For The Year Ended December 31, 2006
(Continued)

Net Revenues		\$ 1,758,052
Payments to State Treasurer:		
75% Operating Fund	\$ 1,392,823	
25% County Fund	<u>358,140</u>	<u>1,750,963</u>
Balance Due at Completion of Audit		<u><u>\$ 7,089</u></u>

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
JOHN DUNN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2006

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2006 (Restated)	\$ 411,116	\$	\$ 411,116
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,392,823		1,392,823
Fees Paid to State - County Funds (25%)		358,140	358,140
Total Funds Available	1,803,939	358,140	2,162,079
<u>Expenditures</u>			
Campbell County Fiscal Court	335,677	358,140	693,817
Personnel Services-			
Official's Statutory Maximum	89,153		89,153
Deputies' Salaries	777,838		777,838
Employee Benefits-			
Employer's Share Social Security	62,832		62,832
Employer's Share Retirement	146,427		146,427
Employer's Paid Health Insurance	109,027		109,027
Worker's Compensation	6,157		6,157
Contracted Services-			
Vehicle Expense	25,580		25,580
Printing and Advertising	6,596		6,596
Computer Services	21,472		21,472
Computer Repair and Support	1,059		1,059
Maintenance Agreements	168		168
Supplies and Materials-			
Office Supplies	18,854		18,854
Uniforms	5,419		5,419
Fuel	32,414		32,414

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
 JOHN DUNN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Unemployment Insurance	\$ 863	\$	\$ 863
Rent	1,703		1,703
Copier Maintenance	553		553
Dues	6,387		6,387
Postage	6,768		6,768
Insurance	18,821		18,821
Telephone	7,614		7,614
Deputy Supplies	39,797		39,797
Miscellaneous	671		671
Software	479		479
Travel	23		23
Attorney	8,000		8,000
Capital Outlay-			
Office Equipment	31,291		31,291
Vehicles	42,296		42,296
Total Expenditures	803,939	358,140	2,162,079
Fund Balance - December 31, 2006	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

CAMPBELL COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2006
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 1, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$649,351

CAMPBELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 4. Travel Account

The Sheriff maintains a travel account for “return of fugitives” receipts reimbursed by the state. The account had a beginning balance of \$10,100, receipts of \$30,189, and expenditures of \$31,054. The ending balance as of December 31, 2006, was \$9,235.

In June 2006, the Sheriff transferred \$8,000 of surplus from his travel account to his 75% account via a pay-in voucher.

Note 5. Restated Beginning Balance

The beginning fund balance for the Sheriff’s 75% account was restated from \$402,116 to \$411,116 to include the \$9,000 imprest cash account balance that was not included in the prior year ending balance.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Pendery, Campbell County Judge/Executive
Honorable John Dunn, Campbell County Sheriff
Members of the Campbell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Campbell County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated December 4, 2007. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campbell County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Campbell County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Campbell County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Campbell County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 4, 2007

COMMENT AND RECOMMENDATION

CAMPBELL COUNTY
JOHN DUNN, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a material weakness under standards established by the American Institute of Certified Public Accountants. During the course of the audit, the auditor noted that the bookkeeper was counting and reconciling cash drawers, preparing daily checkout sheets, posting to the receipts and disbursements ledgers and reconciling the bank accounts.

It appears that some of these duties could be segregated. It also appears that the Sheriff could provide some compensating controls to help achieve a proper segregation of duties.

We recommend that the employees each count out his/her own drawer and reconcile the drawer to actual receipts and/or other documentation of daily activity. We recommend that an employee with no access to cash, review these reconciliations for completeness and accuracy and prepare daily check out sheets which could then be posted by the bookkeeper. We then recommend that a deputy take deposits to the bank.

We also recommend the Sheriff perform and document the following compensating controls. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and include, but are not limited to the following:

1. Cash recounted and deposited by the Sheriff
2. Surprise cash counts by the Sheriff
3. Reconciliation by the Sheriff of daily check out sheets to the receipts ledger and deposit slip.
4. Reconciliation by the Sheriff of checks to the disbursements ledger.
5. Receive the bank statements unopened and scan checks for appropriateness and compare daily deposits to daily check out sheets.
6. Review all bank reconciliations prepared by bookkeeper and document approval.
7. Review all documentation for disbursements before signing checks.

Sheriff's Response: We are doing what has been recommended by our auditor.